

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Corbett Analyst: Kristina E. North Bill Number: AB 2346

Related Bills: None Telephone: 845-6978 Introduced Date: February 19, 2004

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Police Activities League Fund

SUMMARY

This bill would establish the Police Activities League Fund for taxpayer contribution designation on the personal income tax return.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to provide additional funding for the Police Activities League.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2005, and would apply to returns filed for taxable years beginning with the first taxable year another voluntary contribution designation is removed from the tax return and a voluntary contribution designation for this fund is added. The designation for this fund would remain on the tax return for a total of five years.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law provides a true checkoff to direct \$3 of a taxpayer's tax liability to the presidential election fund. Designation of the \$3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to the 11 voluntary contribution funds listed on the state tax return. Each fund provides for the reimbursement of the Franchise Tax Board's (FTB's) and the Controller's actual costs to administer the fund.

Except for the California Seniors Special Fund, which has no sunset date, the voluntary contribution funds have various sunset dates. The attachment shows the specific sunset dates for each voluntary contribution fund and indicates those funds that must meet a minimum contribution test to remain on the return. The initial minimum contribution amount is \$250,000, which is indexed annually for each fund.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<u> X </u> PENDING

Department Director

Date

Gerald H. Goldberg

3/8/04

THIS BILL

This bill would fund programs and services of the Police Activities League by creating a voluntary contribution designation on the state income tax return.

Specifically, this bill would establish the Police Activities League Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the fund on their tax returns in full dollar amounts of \$1 or more. The contributions may be made individually by each signatory on a joint return. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

Beginning with the second taxable year, this bill would require the fund to meet the \$250,000 minimum contribution test. FTB is required to estimate by September 1 of any calendar year after the first taxable year the fund appears on tax returns whether contributions made under this bill will be less than \$250,000 (as indexed for inflation). The law authorizing designations for this fund would be repealed if contributions made under this bill will be less than the minimum contribution amount.

This bill would allow the voluntary contribution designation to remain on the tax return for five years unless a later enacted statute deletes or extends that date.

This bill would specify that if payments and credits reported on the return do not exceed the taxpayer's liability, then the taxpayer's return shall be treated as if no designation has been made. If no designee were specified, a designated contribution amount would be transferred to the General Fund.

This bill would require the Controller to transfer money designated for this fund by taxpayers from the Personal Income Tax Fund to the Police Activities League Fund. Upon appropriation by the Legislature, the moneys from this fund must be allocated to: 1) FTB and the Controller for reimbursement of costs incurred in administering this fund, and 2) Police Activities League.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

TECHNICAL CONSIDERATION

This bill specifies that the moneys transferred to the State Treasury's Police Activities League Fund may be allocated to the Police Activities League upon appropriation by the Legislature. Thus, it may be necessary for the Police Activities League to initiate annual appropriation legislation to receive the allocation or find another appropriation vehicle.

LEGISLATIVE HISTORY

SB 1736 (Bowen, 2003/2004) would allow qualified organizations to be listed on an information form.

PROGRAM BACKGROUND

Eleven voluntary contribution funds appeared on the 2003 California personal income tax returns. Total contributions to these funds have varied from approximately \$3.4 million in 1989/1990 to approximately \$3.8 million in 2001/2002. The number of individuals contributing (first tabulated in 1993) remains fairly constant at approximately 140,000, or slightly less than 1% of all taxpayers.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and New York allow for taxpayer contribution designations on the personal income tax returns.

Florida does not have a personal income tax but allows contribution designations on the state's motor vehicle registration and renewal forms.

None of these states provide a voluntary contribution comparable to the one proposed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Assuming that the minimum level of contributions (\$250,000) is achieved each year this fund is on the return, that the fund is placed on the 2004 return filed in 2005, and that an itemized deduction is allowed and claimed for each contribution, potential revenue losses would be very minor. The revenue loss would be on the order of \$15,000 annually beginning with the taxable year the itemized deduction is claimed on the tax return (2005/2006 FY). The loss would be attributable to itemized deductions claimed for the contributions in the taxable year following the contributions.

Revenue Impact *			
(\$)			
Fiscal Year	2004/2005	2005/2006	2006/2007
Revenue Loss	\$0	-\$15,000	-\$15,000

*This estimate has been rounded.

Any possible changes in employment, personal income, or gross state product that might result from this measure are not taken into account.

Revenue Discussion

According to departmental data, the total amount of existing voluntary contributions to all funds was nearly \$4 million for fiscal year 2002/2003 with an average of \$280,000 per individual designated fund.

Assuming contributions equal or exceed the minimum contribution threshold and all contributors itemize deductions, the annual revenue loss would be on the order of \$15,000 by applying an average marginal tax rate of 6% ($\$250,000 \times 6\% = \$15,000$).

POLICY CONCERN

The placement of voluntary contributions on the tax return limits the amount of space available for tax-related items. The inclusion of non-tax related information could ultimately cause the tax form to become three pages, which is unprecedented among other states and the Internal Revenue Service. A three-page return also would cause the department to incur significant costs for printing, handling, and storage.

LEGISLATIVE STAFF CONTACT

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